

Bank of Canada maintains overnight rate target at 1 per cent

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Ottawa - The Bank of Canada today announced that it is maintaining its target for the overnight rate at 1 per cent. The Bank Rate is correspondingly 1 1/4 per cent and the deposit rate is 3/4 per cent.

The global economic outlook is broadly consistent with the Bank's projection in its January *Monetary Policy Report* (MPR). Global financial conditions remain stimulative, despite recent volatility. In the United States, the economic expansion is continuing at a gradual pace and private sector demand is gaining momentum. Fiscal drag in the United States over the next two years remains consistent with the Bank's January projection, although it is likely to be more front-loaded as a result of sequestration cuts. The recession in Europe continues. Growth in China has improved, while economic activity in some other major emerging economies is expected to benefit from policy stimulus. Commodity prices have remained at historically elevated levels, although persistent transportation bottlenecks are leading to continued discounts for Canadian heavy crude oil.

Canada's economy grew by 0.6 per cent at annual rates in the fourth quarter of 2012, with solid growth across most domestic components of GDP offset by a sharp reduction in the pace of inventory investment. The Bank expects growth in Canada to pick up through 2013, supported by modest growth in household spending combined with a recovery in exports and solid business investment. With a more constructive evolution of imbalances in the household sector, residential investment is expected to decline further from historically high levels. The Bank expects trend growth in household credit to moderate further, with the debt-to-income ratio stabilizing near current levels. Despite the expected recovery in exports, they are likely to remain below their pre-recession peak until the second half of 2014 owing to restrained foreign demand and ongoing competitiveness challenges, including the persistent strength of the Canadian dollar.

Total CPI inflation has been somewhat more subdued than projected in the January MPR as a result of weaker core inflation and lower mortgage interest costs, which were only partially offset by higher gasoline prices. Low core inflation reflects muted price pressures across a wide range of goods and services, consistent with material excess capacity in the economy. Core and total CPI inflation are expected to remain low in the near term before rising gradually to reach 2 per cent over the projection horizon as the economy returns to full capacity and inflation expectations remain well-anchored.

Reflecting all of these factors, the Bank has decided to maintain the target for the overnight rate at 1 per cent. With continued slack in the Canadian economy, the muted outlook for inflation, and the more constructive evolution of imbalances in the household sector, the considerable monetary policy stimulus currently in place will likely remain appropriate for a period of time, after which some modest withdrawal will likely be required, consistent with achieving the 2 per cent inflation target.

Information note:

The next scheduled date for announcing the overnight rate target is 17 April 2013. The next full update of the Bank's outlook for the economy and inflation, including risks to the projection, will be published in the MPR at the same time.